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Mike Berrisford
Modification Panel
Secretary
Gas Governance

Dear Mike,

APX Gas – Response to Modification 0061

APX does not support the introduction of Modification 0061 in its current format.

We do not believe that the modification would serve the interests of the UK Gas Industry, particularly as the upcoming Winter period is the subject of much concern in relation to supply shortages. The approval of the Modification in its current state could produce a more unstable environment for UK traders and have the effect of sending the market incorrect signals rather than avoiding a Network Emergency.

We have noted below our concerns, specifically towards National Grid NTS trading over the counter (OTC), that we believe should be considered.

1. Market Transparency

The Market must have visibility as to the TSO trades at the time of action. If National Grid was to trade OTC, it would not be visible to the Total Market. Real time information would need to be provided as to whom the trade was with and the price and volumes to avoid some parties gaining an unfair advantage over others

The OCM provides real time system prices to the market, based on completed trades on the EnEx platform, derived by rules that are easy to understand. The Modification proposals for the treatment of SAP/SMP prices are complex and involve probabilities, which would make it potentially difficult to understand the methodology behind the calculations, particularly the SMP Buy price.

We also note that the proposed treatment of SAP/SMP prices delivers cash out prices up to 7 times the marginal trade, which could be seen to be penal to Shippers using their best endeavours to balance their portfolio, and ending up short through no fault of their own and being penalised heavily. The degree of potential over-recovery of balancing costs seems excessive, and risks damaging the financial integrity of a Shipper with an imbalance they cannot resolve.

2. Timescales

APX are concerned that, the timescales available to implement the revised pricing methodology may lead to a less than satisfactory technical solution. Any delay in publishing reliable price information following a National Grid trade will add to uncertainty when the market is already in a state of flux.

3. Trading OTC

APX do not believe that allowing National Grid NTS to trade OTC is consistent with previous industry thinking or evolution of the UK Gas Market. Although the modification is designed to only allow non OCM members to trade over the counter, we do not believe that any tangible benefit would be achieved. Almost all physical players that could make a difference in the event of a GBA are already OCM members.

4. Market concerns

Some APX Members have raised concerns that the changes APX are implementing to the OCM to develop GBA's via our Locational Market, do not go far enough and require further industry consultation before implementation

General Comment

Whilst APX does not support the current Modification proposal it is happy to continue to work on behalf of the industry to further develop a Gas Balancing Alert solution on the OCM that benefits all parties.

Yours sincerely,

Martin Thomas
Managing Director
APX Gas Ltd